

PRE-BUDGET SUBMISSION 2022-23

Tourism Accommodation Australia & Accommodation
Association Submission



January 2022

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INTRODUCTION

Tourism Accommodation Australia (TAA) and the Accommodation Association welcomes the opportunity to make a pre-budget submission for 2022 - 2023.

TAA is a division of the Australia Hotels Association (AHA) and together with the Accommodation Association they form the national peak bodies representing Australia's tourism, hotel accommodation and hospitality industry. Our membership is diverse and serviced by a network of branches based in every state and territory. We represent licensed businesses from small bars, restaurants, taverns, pub-style hotels through to three, four and five-star international accommodation hotels and resorts, serviced apartments and motels located in each state and territory.

Our members include Accor Hotels (incorporating Mantra Group); Marriott Hotels, Hyatt Hotels and Resorts; Intercontinental Hotels Group (IHG); Pan Pacific Hotels; Parkroyal Hotels and Resorts; Lancemore Group; Hilton; Event Hospitality Group including Rydges and QT Hotels; Toga Far East Hotels (TFE); Wyndham Hotel Group; Choice Hotels, Best Western, Big 4 Holiday Parks and Quest Apartment Hotels. The Associations are committed to the future development and growth of a sustainable accommodation industry within Australia's dynamic tourism and hospitality sector.

Our role is to represent the business and commercial interests of our members through services, advocacy, and policies. We are committed to ensuring the future recovery and growth of the accommodation sector following droughts, bushfires, floods and COVID-19 that saw the decimation of our industry throughout 2020 and 2021.

TAA and the Accommodation Association recognises the importance of working with Government departments and stakeholders and we have a demonstrated history of achievement in working with Federal, State and Local Government, law enforcement agencies, educators, universities, and other organisations, never more so than over the last 24 months.

Prior to COVID-19, tourism had been identified as the super-growth sector of Australia's transitioning economy, with a total tourist consumption of \$143 billion, which saw \$57.3 billion in GDP contributed to the economy (comprising 3.1% of the national total), and employment of 646,000 persons (5.2% of the Australian workforce).¹ Confidence and investment had supported the recent strong performance of the sector which has outpaced national growth rate for the last three years.²

TAA and the Accommodation Association recommendations for the Federal Budget 2022-2023 are summarised and then outlined in detail below.

¹ Australian Bureau of Statistics, 2018, *Tourism Satellite Account 2017-18*, <https://www.tra.gov.au/economic-analysis/economic-value/national-tourism-satellite-account/national-tourism-satellite-account>.

² <https://www2.deloitte.com/au/en/pages/consumer-industrial-products/articles/tourism-hotel-outlook.html>.

TAA/ACCOMMODATION ASSOCIATION RECOMMENDS:

Further financial support for impacted hotels

- *Ensure financial support is available to those hotels hardest hit by the international and domestic border closures as a result of the COVID-19 pandemic. Prioritise said support for the larger CBDs of Sydney and Melbourne which, due to their feeder market value, are and will continue to be critical to tourism's recovery.*

Support Domestic Tourism and the return of International Travellers

- *Ensure funding for Tourism Australia is \$240 million to support intrastate and interstate travel and is effective in leveraging marketing campaigns in key international markets once borders reopen.*
- *Commit to expanding the business events bid fund, which ensures Australia remains competitive in attracting high-yielding business events for the future which will be critical for our recovery.*

Drive Continued Improvement in Access

- *Secure continued funding for the benchmarking of all visitors and (WHM) visa fees and charges and processing times to ensure we are competitive for our recovery.*
- *Use the Passenger Movement Charge to improve infrastructure and support the tourism industry.*
- *Establish a separate funding source for airports with input from multiple sources to ensure that airports can continue to provide the capacity and facilities to service the growing number of visitors.*

Investment and Regulation

- *Continue to identify and provide funding support for key State infrastructure projects that are essential to visitor economy growth.*
- *Support the continuing investment in core visitor surveys and provide long term commitment to alternative data sources that provide timely tourism metrics that can access our recovery.*
- *Continue to support the Australian Accommodation Monitor, essential to tracking performance in regional areas.*
- *The restoration of reasonable entertainment expenses as a tax deduction and the removal of FBT on accommodation and employee meals.*

Boost Regional Tourism Performance

- *Continue to provide funding under the Building Better Regions fund to facilitate growth in regional tourism infrastructure.*
- *Tourism Australia continue to promote Holiday Here This Year campaigns to drive visitation into regions across the country*
- *Commitment via funding and resources to initiatives such as the Regional Tourism Infrastructure Investment Attraction Strategy 2016 – 2021, to enable not just the promotion of regional areas to investors, but the identification and support of market-ready proposals.*

- *Funding and resources for areas affected by extreme weather events and disasters factor in the costs of tourism infrastructure and marketing of regions as tourism destinations still open for business following the bushfires and floods of 2020.*

Allocate Resources to Address Labour & Skills Shortages

- *Fund a further economic report into labour and skills shortages to determine the nature and quantum of gaps created by COVID-19 in the tourism and hospitality sector to 2030.*
- *Halving the Skilling Australians Fund levy (SAF) to \$600 for small business and \$900 for large businesses for each sponsored temporary migrant, in recognition of the already significant costs associated with accessing overseas labour.*
- *Government to consider extending incentives and initiatives to attract more Australians into the industry such as:*
 - *Work with industry to identify pre-apprenticeship programs;*
 - *Extending the apprenticeship wage subsidy to encourage retention to March 23 at the existing 50% for hotels and hospitality which was hardest hit by the ongoing restrictions,*
- *Extend the removal of the 40hr per fortnight cap for International Students for a further 12 months to support the labour shortages crisis*

Insurance Reform

- *Monitor and if needed regulate insurance classes to ensure certainty and affordability for the accommodation and hospitality sector*
- *Consider other alternative risk mitigations such as advance deposit schemes that underwrite the tourism and events supply chains*
- *Adequately fund a Discretionary Mutual Fund (DMF) to cover risk for the leisure industries that include parts of the tourism sector and critical to the accommodation and hospitality industry.*

1. FURTHER FINANCIAL SUPPORT FOR IMPACTED HOTELS

The hotel sector has been severely impacted for over two years now since the reporting of the bushfire activity in 2019 and the ongoing COVID-19 pandemic throughout 2020 and 2021. The unpredictability of State & Territory government decisions on borders and multiple lockdowns have made it difficult for many hotel businesses to operate – particularly in the major CBDs of Sydney and Melbourne outside of the hotel quarantine programs.

Although restrictions have now started to ease in line with the National Plan, there is still a way to go for hotels, particularly those which overwhelmingly relied on international tourism, who will be struggling to survive until the international border is reopened for tourists. Even when the international border fully reopens there will be a lag at the reopening period where there will be a delay in the ability to attract customers and revenue as reopening progresses.

In addition, the Omicron variant has again demonstrated the extreme unpredictability of the current environment. Accommodation providers, especially those in major CBDs are once again facing cancellations and decrease in demand in what would be peak season due to a decrease in consumer confidence as the nation reacts to the rapid increase of COVID-19 infections.

It is imperative that these hotels are delivered support so they can bounce back and continue to contribute to Australia's global competitive advantage in tourism, business events and major events in the future. It is important to remember that the struggle to survive is through no fault of their own, but as a result of COVID-19 and government-imposed sanctions to manage the health crisis.

The most important support that can be delivered to hotels to enable future success is through:

- Certainty in the way Federal, State and Territory Governments respond to new COVID-19 variants including in relation to borders, international travel and quarantine requirements;
- Effective roll out and implementation of the vaccination and vaccine booster program.

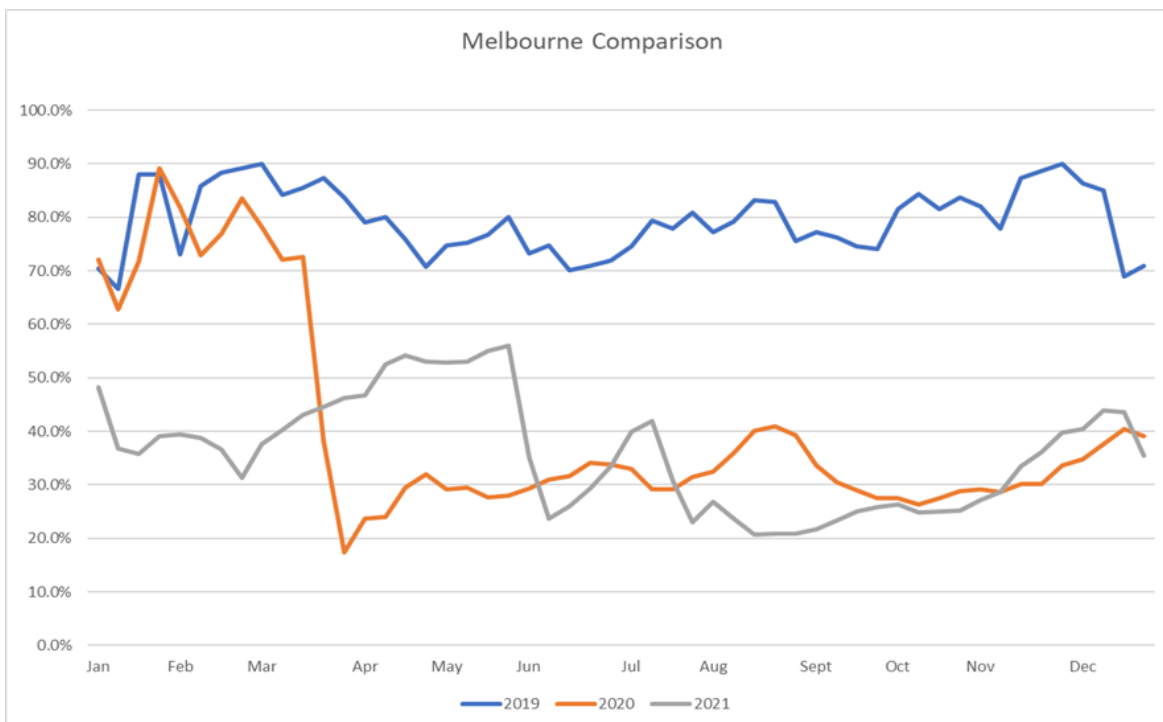
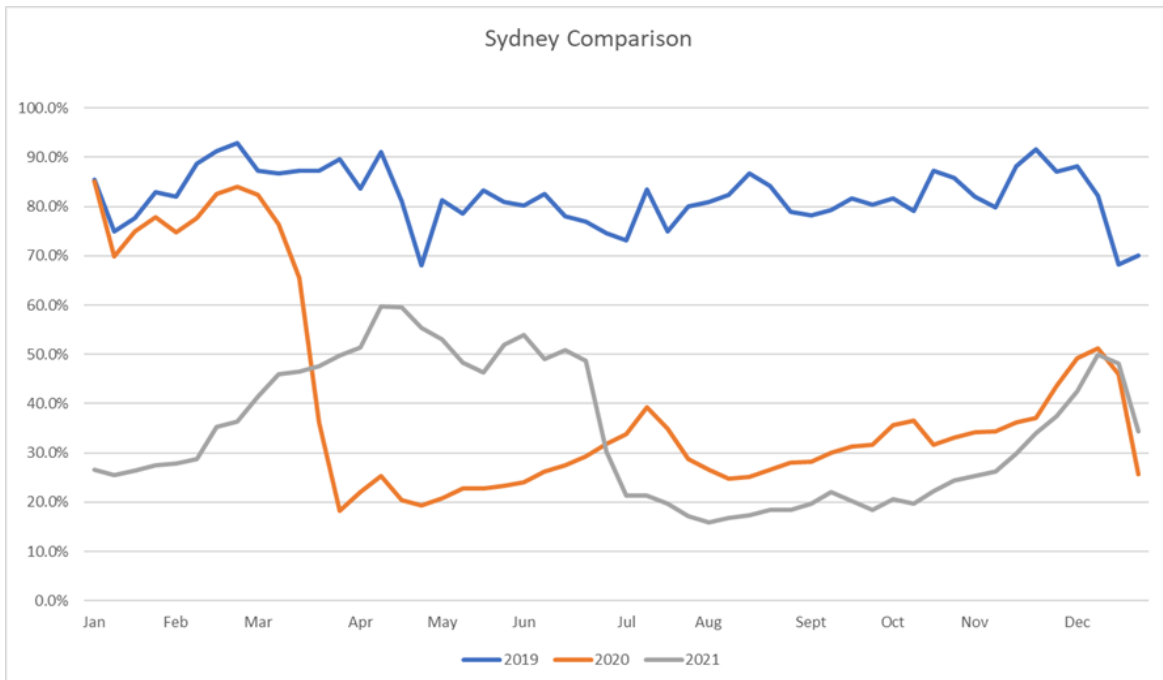
It is essential that support measures are provided to hotels that will continue to be negatively impacted beyond the lifting of restrictions as business events, cruising and international conferences and events take time to recover.

Graph 1.0 indicates the impact of COVID-19 on hotels from the beginning of the pandemic. These figures are inclusive of quarantine hotel business which has since dramatically dropped off due to changes in state and territory requirements and a lower demand to host quarantine travellers.

TAA/ACCOMMODATION ASSOCIATION RECOMMENDS:

Further financial support for impacted hotels

- *Ensure financial support is available to those hotels hardest hit by the international and domestic border closures as a result of the COVID-19 pandemic. Prioritise said support for the larger CBDs of Sydney and Melbourne which, due to their feeder market value, are and will continue to be critical to tourism's recovery.*



Graph 1.0 – Occupancy of Hotels in Australian Major CBDs – Sydney & Melbourne Jan 19 – Dec 21

(A full analysis of major Australian CBDs and gateway cities can be found in attached Appendix One)

2. SUPPORT DOMESTIC TOURISM AND THE RETURN OF INTERNATIONAL TRAVELLERS

2.1 INVESTMENT IN TOURISM AUSTRALIA

As a world leader in international destination marketing, it is imperative that Tourism Australia retains its status to ensure it remains a contender in the highly competitive international tourism market post pandemic. In response to the Bushfire crisis followed by COVID-19, Tourism Australia took on a domestic marketing role in addition to international marketing efforts. This was a welcome move as it saw the release of unified domestic tourism campaigns and the establishment of State Tourism bodies. In partnership with the state and territory bodies, the activation of lucrative international recovery campaigns aligned with the strategic domestic campaigns have reinforced the vital role Tourism Australia plays in the rebooting of our industry.

It is predicted that the post pandemic environment will create significant opportunities for Australian tourism, both internationally and domestically. Tourism Australia must stand in a well-resourced stead to take full advantage of these opportunities as they will be tasked to promote the country, at which time, there will be fierce competition within the global market to capture the tourism spend.

TAA and the Accommodation Association applauds the Federal Government of their funding commitment, made in 2019, to Tourism Australia, announcing \$644.7 million over four years. Tourism Australia has received additional targeted funding in 2020 and this will total \$195 million in the FY 2020-21. Given the post COVID-19 marketing effort needed, funding needs to increase to \$240 million for FY 22-23.

2.2 BUSINESS EVENTS

The national business events bid fund supports bids for new, high-value international incentive, association, and exhibition events. As part of our industries recovery from COVID-19 it is recommended that a formal Federal Events fund be established in addition to State Government funds. As a growing global trend towards direct financial support for major business events, this will ensure that Australia is able to proactively respond within an extremely competitive events bid market once international travel resumes worldwide.

The Association of Australian Convention Bureau (AACB) published research in 2018 confirming that 12% of international association convention bids for events from 2015 - 2025 were lost due to stronger financial incentives offered by Australian competitors.³ The current bid fund has proved successful and helps mitigate against the high cost of doing business in Australia.

³ Association of Australian Convention Bureaux, *AACB Submission to the Beyond Tourism 2020 Steering Committee*, 26 April 2018, <https://aacb.org.au/Beyond%20Tourism%202020>.

TAA/ACCOMMODATION ASSOCIATION RECOMMENDS:

Support Domestic Tourism and the return of International Travellers

- *Ensure funding for Tourism Australia is \$240 million to support domestic intrastate and interstate travel and is effective in leveraging marketing campaigns in key international markets once borders reopen.*
- *Commit to expanding the business events bid fund, which ensures Australia remains competitive in attracting high-yielding business events for the future which will be critical for our recovery.*

3. DRIVE CONTINUED IMPROVEMENTS IN ACCESS

3.1 WORKING HOLIDAY MAKERS

Apart from explicit visa application fees, the real costs of visas also include biometrics fees, Visa Application Centre fees, the Passenger Movement Charge (PMC), and courier fees for any paper-based applications. A key consideration in Australia's overall competitiveness as a destination for future tourists and for Working Holiday Makers (WHMs) is the cost of visa fees and supplementary charges, along with visa processing times. It is well understood that WHMs are a great opportunity for our country's recovery. They assist our CBD and regional staffing shortages and, to the benefit of our local regional and metropolitan visitor economy, spend almost all their income during their visit.

Working Holiday Makers maintain the status of long-stay tourists. It is recommended that Government support the above associated costs as an attraction mechanism. This is the easiest form of international travel returning which brings high yield and supports our widespread staff shortages crisis. Opportunities for current WHMs to extend their visas should also be easy and relatively inexpensive to ensure we retain the workforce in the country whilst borders slowly reopen.

3.2 AVIATION ACCESS

The Government has negotiated over 100 bilateral air services agreements and associated arrangements. These agreements have been instrumental in supporting continued visitor growth and access.

A separate funding source for airports is needed to continue support for visitor growth. This requires input from the Federal Government, relevant State Governments, and airport organisations. Better resourcing of airports would also have the benefit of improving and opening up trade routes and regional destinations.

TAA/ACCOMMODATION ASSOCIATION RECOMMENDS:

- *Secure continued funding for the benchmarking of all visitors and (WHM) visa fees and charges and processing times to ensure we are competitive for our recovery.*
- *Use the Passenger Movement Charge to improve infrastructure and support the tourism industry.*
- *Establish a separate funding source for airports with input from multiple sources to ensure that airports can continue to provide the capacity and facilities to service the growing number of visitors.*

4. INVESTMENT AND REGULATION

TAA and the Accommodation Association welcomed the announcements in the last Budget of ongoing commitments to infrastructure as part of the National Infrastructure Plan, including commitments to Western Sydney Airport, Melbourne Airport Rail Link, and the Bruce Highway. The City Deals and Regional Deals are central in providing the funding and support for essential tourism infrastructure.

4.1 INVESTMENT IN DATA

Government visitor economy data is an important resource for all tourism stakeholders. It is required to track performance across metropolitan and regional localities; assess the impact of Government policy; and provide investors with the critical information they need to assess the market and make decisions.

TAA and the Accommodation Association welcomed the appointment of STR to produce the Australian Accommodation Monitor (AAM), which filled the gap particularly in regional accommodation metrics, but we would like to see ongoing support guaranteed for this vital dataset. We value the continued investment in the National Visitor Survey and the International Visitor Survey and support the continuing investment and long-term commitment to alternative data sources that provide timely tourism metrics that will be critical to monitor the industry’s recovery in a post COVID-19 environment.

4.2 FRINGE BENEFITS TAX (FBT)

Since being introduced in 1986, FBT has been an enormous impost for business. The fact that meals which are genuinely for business purposes attract FBT is to the detriment of the hotel industry and the broader hospitality and business community. TAA and the Accommodation Association recommends that this tax to be abolished or a relief until FY 2024/2025 to support industry recovery from the Pandemic. During 2020, TAA in conjunction with the AHA, engaged Ernst and Young (EY) to prepare a report to support this request (see Appendix Two).

The EY report shows that a temporary suspension of meals entertainment and accommodation FBT in both the below options has a positive economic benefit. In FY22 and FY23, the economic returns range from 3.25x to 3.81x.

	GDP per dollar of cost to Government	
	For all businesses (Option 1A)	Restricted to SME only (Option 1B)
2020/21	\$1.89	\$2.11
2021/22	\$3.26	\$3.81
2022/23	\$3.25	\$3.79

The AFS sector has over 100,000 establishments employing over 900,000 people, including above average representation of females and young people. TAA and the Accommodation Association believe that the suspension of FBT is a moderate policy in the circumstances that will grow revenue and jobs in the sector. Importantly, we request a tax that inhibits growth, to be suspended.

TAA/ACCOMMODATION ASSOCIATION RECOMMENDS:

- *Continue to identify and provide funding support for key State infrastructure projects that are essential to visitor economy growth.*
- *Support the continuing investment in core visitor surveys and provide long term commitment to alternative data sources that provide timely tourism metrics.*
- *Continue to support the Australian Accommodation Monitor, essential to tracking performance in regional areas.*
- *The restoration of reasonable entertainment expenses as a tax deduction and the removal of FBT on staff business meals and accommodation.*

5. BOOST REGIONAL TOURISM PERFORMANCE

Regional visitor economies are underperforming in many key tourism destinations due to the lack of international tourists due to international border closures due to COVID-19. Whilst there has been some reprieve from intrastate and interstate travel the spend of travelling Australians is lower and ultimately this pent-up demand will be short lived.

Based on the above the regional visitor economy needs urgent action to provide:

- **Reliable and useful tourism data** to support sustainable planning and decision-making,
- Initiatives that support **regional dispersal**, we know visitors will travel 3-4 hours from major population centres and this ongoing challenge has only been amplified,
- Programs and initiatives to address **skills shortages crisis**, and
- **Industry development** to build a stronger and more resilient communities.

The growth of regional visitor economies is dependent on dispersing more international visitors beyond capital cities for longer overnight stays. With the gradual return of international visitors and more travelling domestic Australians there is a need to attract more quality supply into regional Australia, to assist with increased dispersal to regional areas. Many of Australia's regional areas suffer from insufficient investment in, and renewal of, tourism facilities. Investment in regional facilities is unlikely to occur without an increase in regional visitor nights, yet an increase in regional visitor nights is unlikely to occur without improved accommodation.

5.1 REGIONAL INFRASTRUCTURE

TAA and the Accommodation Association welcomes the focus on regional tourism projects by earmarking \$100 million of the grant in the fifth round of the Building Better Regions Fund to tourism related infrastructure projects.

There is a need to improve tourism-related infrastructure and support demand driven projects. Prioritising infrastructure with the aim of boosting local tourism has wider benefits for an entire local community. Domestic tourism is and will continue to be for some time into the foreseeable future, the main driver of recovery for the tourism industry and accommodation sector. Therefore, increasing the capacity of regional conference centres, improving local facilities and infrastructure such as roads, airports and tourism vessels will directly benefit tourism operators and add to the experience of

visitors while also positively contribute to the local, regional and wider tourism economies year on year.

TAA/ ACCOMMODATION ASSOCIATION RECOMMENDS:

Continue to provide funding under the Building Better Regions fund to facilitate growth in regional tourism infrastructure.

- *Commitment via funding and resources to initiatives such as the Regional Tourism Infrastructure Investment Attraction Strategy 2016 – 2021, to enable not just the promotion of regional areas to investors, but the identification and support of market-ready proposals.*
- *Funding and resources for areas affected by extreme weather events and disasters factor in the costs of tourism infrastructure and marketing of regions as tourism destinations still open for business following the bushfires and floods of 2020.*

6. ALLOCATE RESOURCES TO ADDRESS LABOUR & SKILLS SHORTAGES CRISIS

As the tourism industry is operating in unprecedented times it is important that the industry – and the accommodation sector – are still supported by a skilled and productive workforce. Ultimately, a two-pronged approach is required to meet the skills shortages of the industry as we recover from COVID-19 being: create a pipeline of skilled Australian workers and at the same time, enable employers who have acted with integrity to more easily access skilled migrant workers.

Our members rely on a skilled, productive, and reliable workforce, it is one of the pillars of the wider tourism industry, but specifically to the accommodation sector. There must be a two-pronged approach to tackle the skills shortages in the industry as we slowly recover from the effects of the pandemic. First, it is vital that we create a pipeline of skilled Australian workers while also enabling employers who have acted in good-faith and integrity to more easily access skilled migrant workers.

The TAA NSW Labour Benchmarking Study 2019 indicated that 0.43 employees are required per accommodation room. The Tourism Investment Monitor reveals that there are 53,227 projects in the pipeline (recorded as at 2018) from 305 projects. This creates a need for at least 22,887 additional workers to service the identified projects. As recorded in 2017, there are 88,800 directly employed accommodation workers. Hence, 22,887 additional workers represents a 26% increase of the workforce in the coming years.

By way of breakdown, data from the Department of Employment, Skills, Small and Family Business indicates that the broader Accommodation and Food Sector will require an additional:

- 400 Hotel and Motel Managers (increase of 1.7%);
- 10,200 Accommodation and Hospitality Managers (increase of 9.4%);
- 13,300 Miscellaneous Hospitality, Retail and Service Managers (increase of 7.6%);
- 16,800 Chefs (increase of 16.7%);
- 14,100 Bar Attendants and Baristas (increase of 13.4%);
- 21,800 Waiters (increase of 21.8%) and 4,300 Housekeepers (increase of 12.5%).⁴

⁴ Department of Employment, Skills, Small and Family Business, Occupation Projections – five years to May 2023, <http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections>.

Whilst these statistics are now dated due to the impacts of COVID-19, we envisage higher shortages facing the industry as staff opt to leave the industry and seek other careers due to the insecurity and instability of the sector. In October 2021, there were 100,000 jobs advertised on SEEK for the industry – this does not include those employers who are no longer prepared to pay to advertise roles as they receive such poor response.

The opportunity to have Switzerland included in the (WHM) will assist however it is also recommended to include the Philippines as another well-suited country to support the current labour shortages.

6.1 BETTER RESOURCES AND FUNDING FOR TRAINING AUSTRALIANS

Over the last decade both Federal and State funding of Vocational Education Training (VET) has declined and student engagement with the sector has declined. Government has recognised the need to improve student and industry perceptions and engagement with the VET sector, and to that end a number of initiatives have been undertaken, including a review of the sector by Stephen Joyce and the skills package announced in the 2019-20 Budget.

Regarding the skills package, like ACCI we note that this has been substantially funded by the Skilling Australians Fund (SAF) levy imposed on employers accessing skilled migration programs, as opposed to being a commitment in the Budget. We also are concerned at the quantum of the SAF levy and seek a halving of the costs involved.

6.2 VET STUDENT LOANS

The replacement program for VET FEE-HELP, VET Student Loans, is too restrictive. Other than for specified exceptions (e.g. aviation), there are three loan cap bands of \$5,075, \$10,150 and \$15,225 (indexed each year), based on cost of delivery. For students interested in studying qualifications related to the hospitality and tourism industry, accessing VET Student Loans is difficult and different states have different subsidies dependent on a number of factors such as prior qualifications.

This makes navigating the system difficult for students and often means that the funding gap is at least half – and sometimes more – for the qualifications in the hospitality and tourism sector. TAA and the Accommodation Association recommends that there be a decrease in the funding gap between qualifications for the accommodation and hospitality sectors and VET Student Loans.

6.3 APPRENTICESHIPS AND TRAINEESHIPS

To assist in the recovery of travel, tourism and hospitality businesses, we seek to reaffirm the Commonwealth Government's commitment to the skills initiatives that are supporting the tourism workforce during the COVID-19 period.

The 50 percent wage subsidy for apprentices and trainees in small businesses announced as part of the first Government response to the COVID-19 crisis was an important step in encouraging retention of apprentices and trainees. This has been later updated to include all businesses however is due to end in March 2022.

TAA and the Accommodation Association recommend that this continue in its capacity of 50% wage subsidy for the Accommodation and Food Services Industry for a further 12 months, to March 2023,

to ensure we are able to grow our own talent for the industry's recovery. Our recommendation will incentivise commencements, which have suffered a dramatic fall during the COVID-19 crisis as well as address the skills crisis challenge and rising youth unemployment.

6.4 INTERNATIONAL STUDENT WORKING CAPS

International students are critical to our visitor and education economies. International students also play a major role supporting our accommodation and hospitality industry labour needs and have been vital to the very diverse mix of our workforce.

The Commonwealth Government temporarily lifted working caps for international students in essential sectors, such as tourism, meaning students can work beyond the 40 hours per fortnight. This has significantly aided the current skills shortage in the tourism sector and both the TAA and the Accommodation Association welcomed and supported the decision.

It is our recommendation that this temporary lifting of the cap remain in place for a further twelve months, June 2023, to continue to support essential industries that are so vital to the Australian economy.

TAA/ ACCOMMODATION ASSOCIATION RECOMMENDS:

- *Fund a further economic report into labour and skills shortages crisis to determine the nature and quantum of gaps created by COVID-19 in the tourism and hospitality sector to 2030.*
- *Halving the Skilling Australians Fund levy (SAF) to \$600 for small business and \$900 for large businesses for each sponsored temporary migrant, in recognition of the already significant costs associated with accessing overseas labour.*
- *Government to consider extending incentives and initiatives to attract more Australians into the industry such as:*
 - *Work with industry to identify pre-apprenticeship programs;*
 - *Extending the apprenticeship wage subsidy to encourage retention to March 31, 2023 at the existing 50% for hotels and hospitality which was hardest hit by the ongoing lockdowns and restrictions in the past 2 years*
- *Extend the removal of the 40hr per fortnight cap for International Students for a further 12 months to support the labour shortages crisis*

7. INSURANCE REFORM

Visitors and business involved in the broader tourism sector insure against the risks of travelling and providing services to visitors. Insurance classes such as workers compensation, public liability and travel insurance all face impacts from COVID-19. Hotels are responding to these risks by being more flexible with bookings and refunds but will need the support of insurers and their underwriters to be able to offer the certainty that insurance provides, at a cost the insured can afford. There may be a role for Government in monitoring and, if necessary, regulating to ensure certainty and affordability can be achieved.

This recommendation reflects the need to ensure that insurance responses to COVID-19 do not make insurance inaccessible for hotels and hospitality businesses, especially Workers Compensation, Public Liability, Conference and Events insurance. Affordability and accessibility of adequate insurance coverage is crucial so that businesses can protect their employees, their consumers and their operations. There are a number of key insurance concerns currently faced by the accommodation and tourism sector, including operators not being able to access appropriate insurance products or facing issues with renewal increasing premiums and decreasing cover; the lack of a national solution to the business events cancellation risk; coverage of supply chain risks; and the unavailability of travel insurance that covers travellers quarantining and contractions of COVID-19 is a serious issue in the lead up to easing border restrictions and the flow of international travellers resuming.

Liability caps may be imposed if necessary, to ensure businesses remain solvent. An accessible and competitive travel insurance market will facilitate travel and not act as a deterrent in an already tight and competitive market. The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) Insurance Inquiry Final Report also recommended that the liability for personal injury should be subject to statutory caps and where there is only one or no insurers left in a professional indemnity market, that the Federal Government should provide an insurance scheme of last resort for small business.

Consideration should also be given to other risk mitigation measures, such as advance deposit schemes that underwrite the tourism and events supply chains. It is expected that post-pandemic settings there will be international expectation of changed payment arrangements that will severely impact cash flows in Australian businesses in the medium term.

In addition, on 6 December 2021 ASBFEO released its final report into the insurance crisis facing Australia's amusement, leisure, and recreation sector, *'Discretionary Mutual Fund Review Final Report: The Show Must Go On'*. In conjunction with the interim report, the final report has explored and found that a Discretionary Mutual Fund (DMF) is currently the only workable and durable solution to enable the amusement, leisure and recreation sector to remain operational in a hardened global insurance market. It was highlighted that if these businesses cannot secure risk protection, they face imminent closure and that will lead to significant job losses (particularly in regional areas) and a loss of economic activity generated by metro and regional shows and amusement parks. The DMF solution as set out in the final report is reliant on all foundational support from all levels of government,

including Federal. Adequate funding of the DMF is necessary to cover risk for the leisure industries that include parts of the tourism sector and a critical source to the accommodation and hospitality industry.

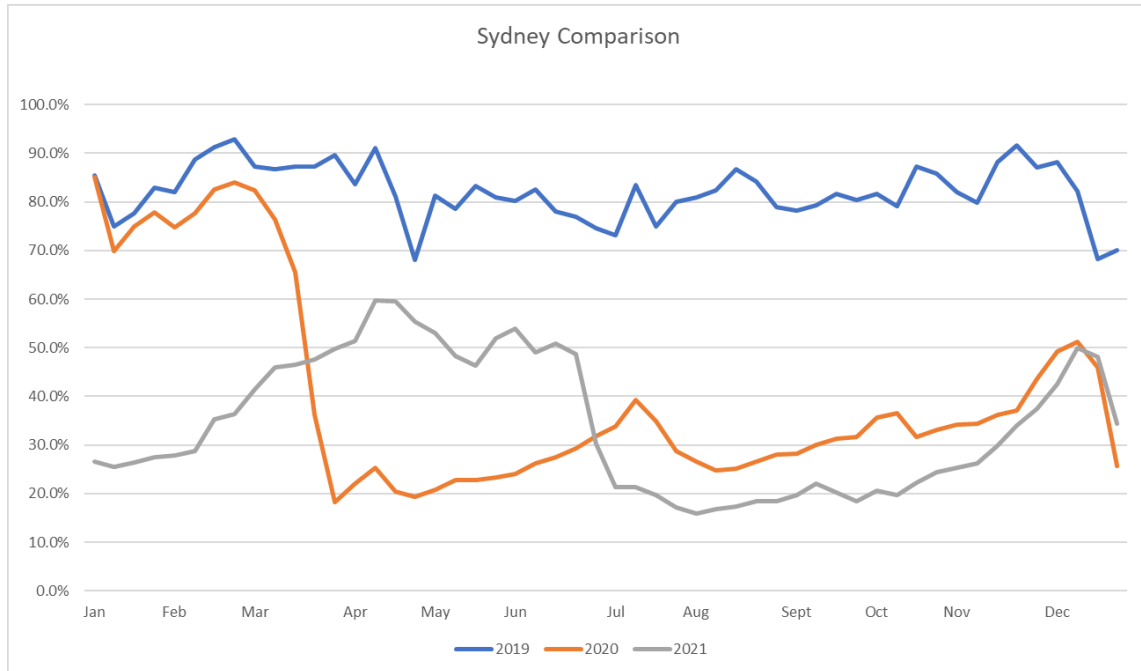
TAA/ ACCOMMODATION ASSOCIATION RECOMMENDS:

- *Monitor and if needed regulate insurance classes to ensure certainty and affordability for the accommodation and hospitality sector*
- *Consider other alternative risk mitigations such as advance deposit schemes that underwrite the tourism and events supply chains*
- *Adequately fund a Discretionary Mutual Fund (DMF) to cover risk for the leisure industries that include parts of the tourism sector and critical to the accommodation and hospitality industry.*

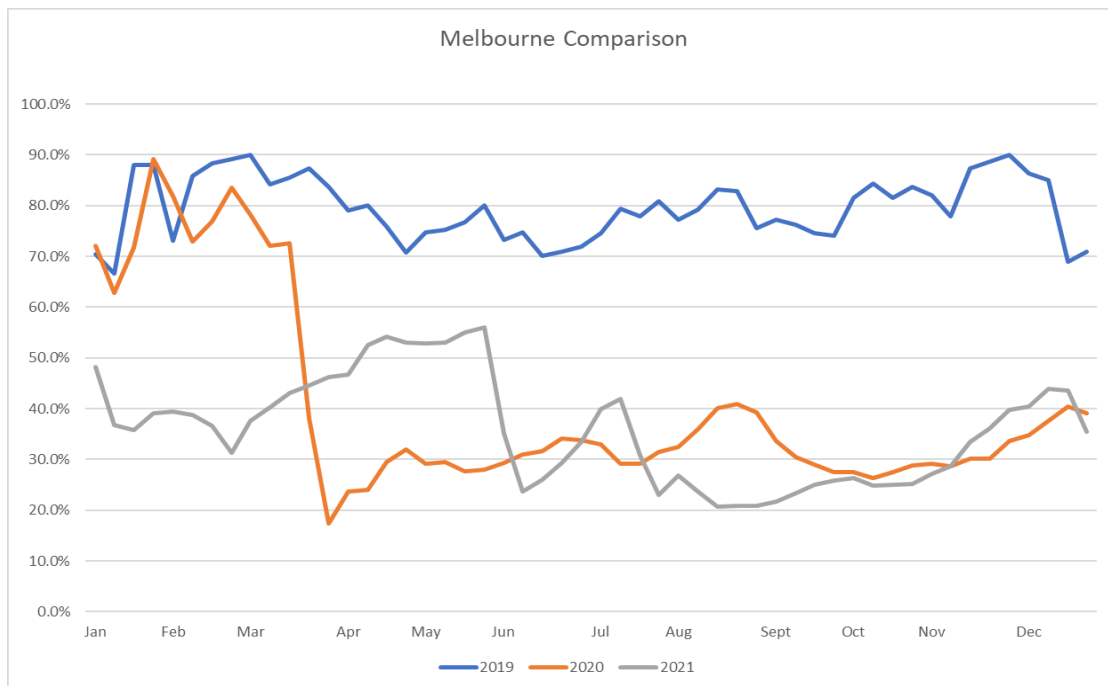
Appendix One

Occupancy – Major Australian CBDs and Gateway Cities

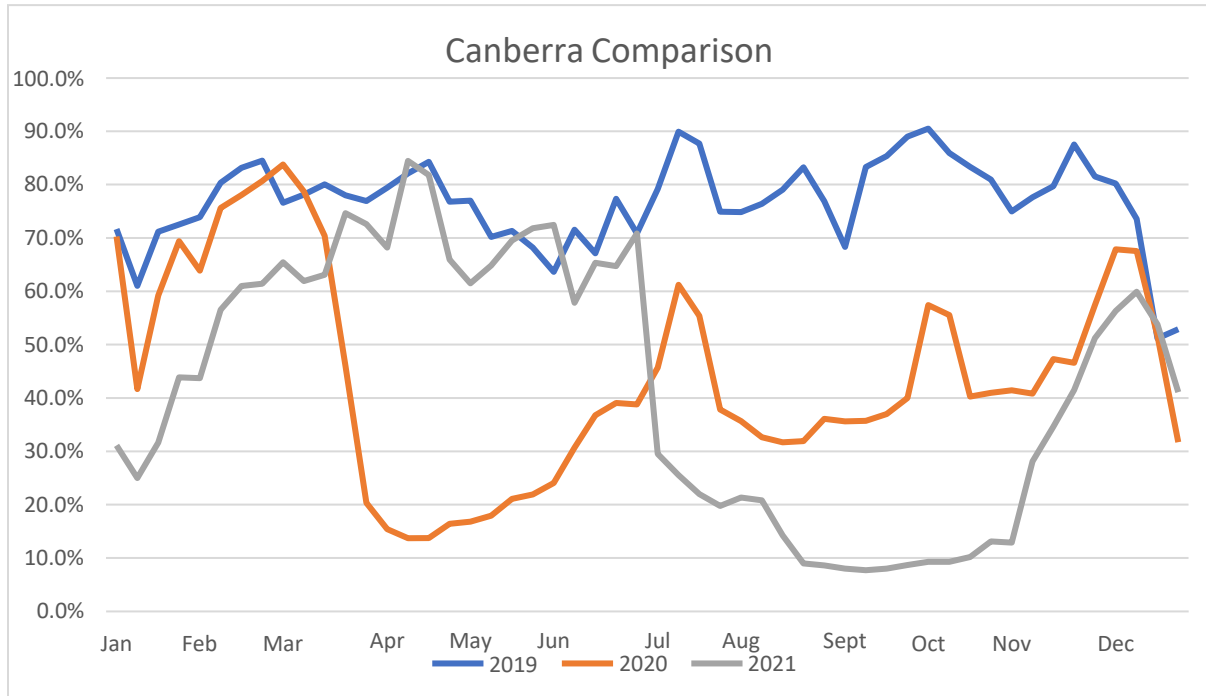
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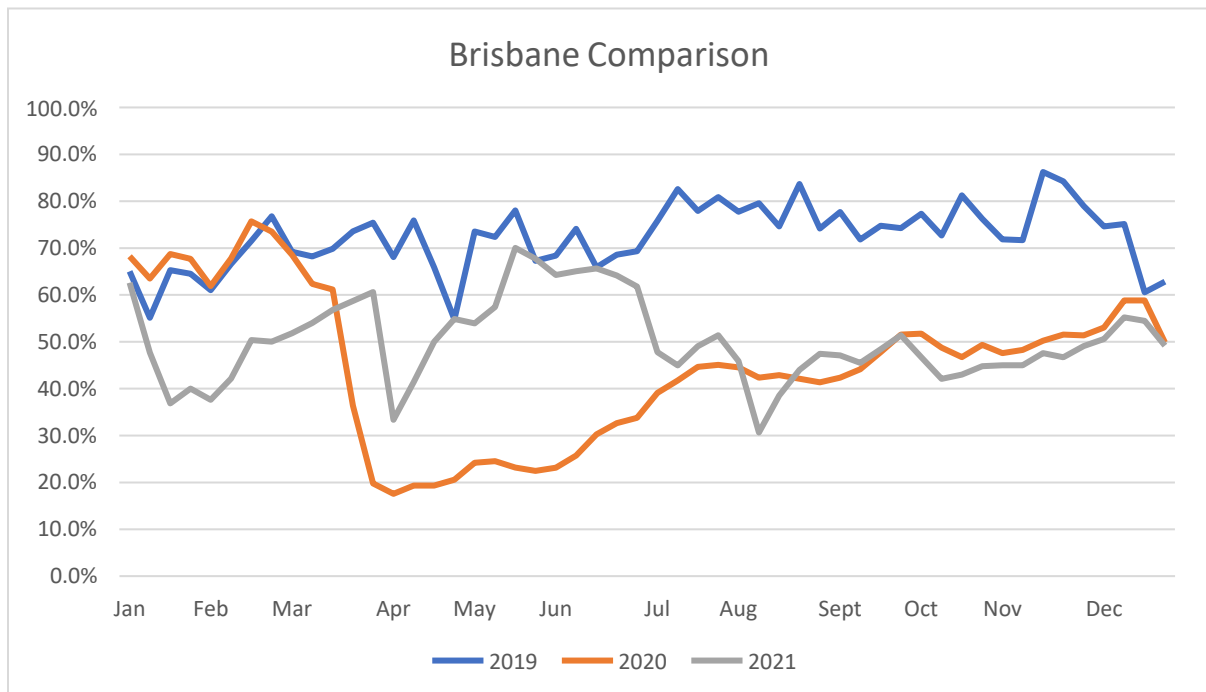
Melbourne:



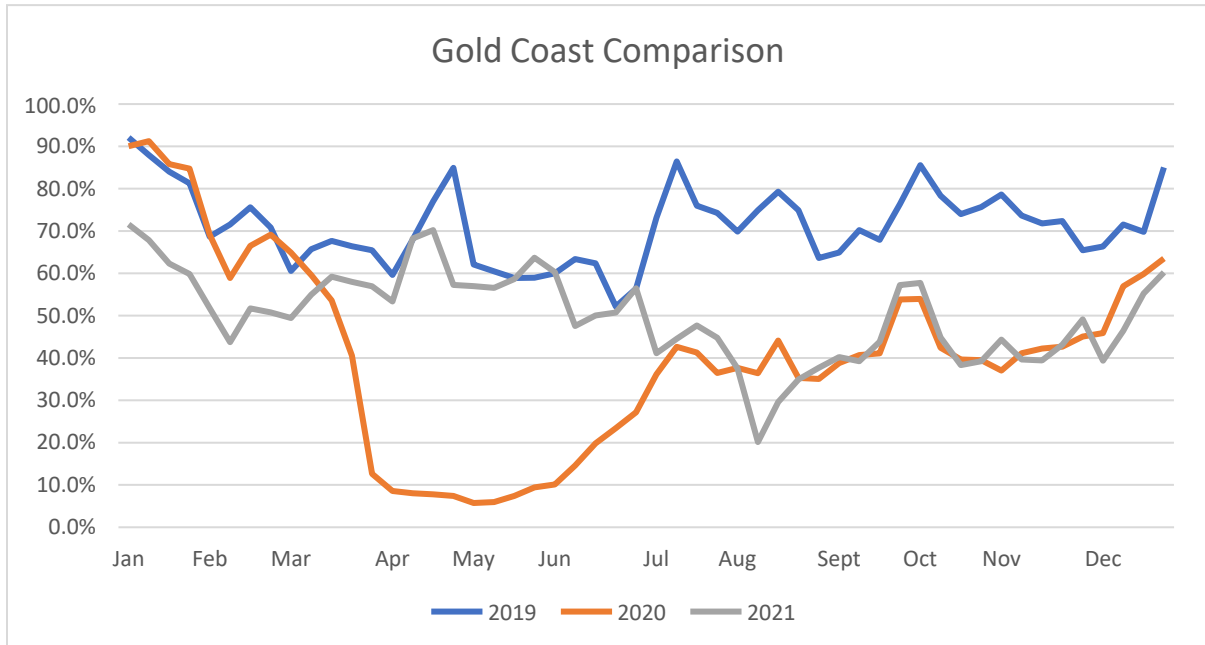
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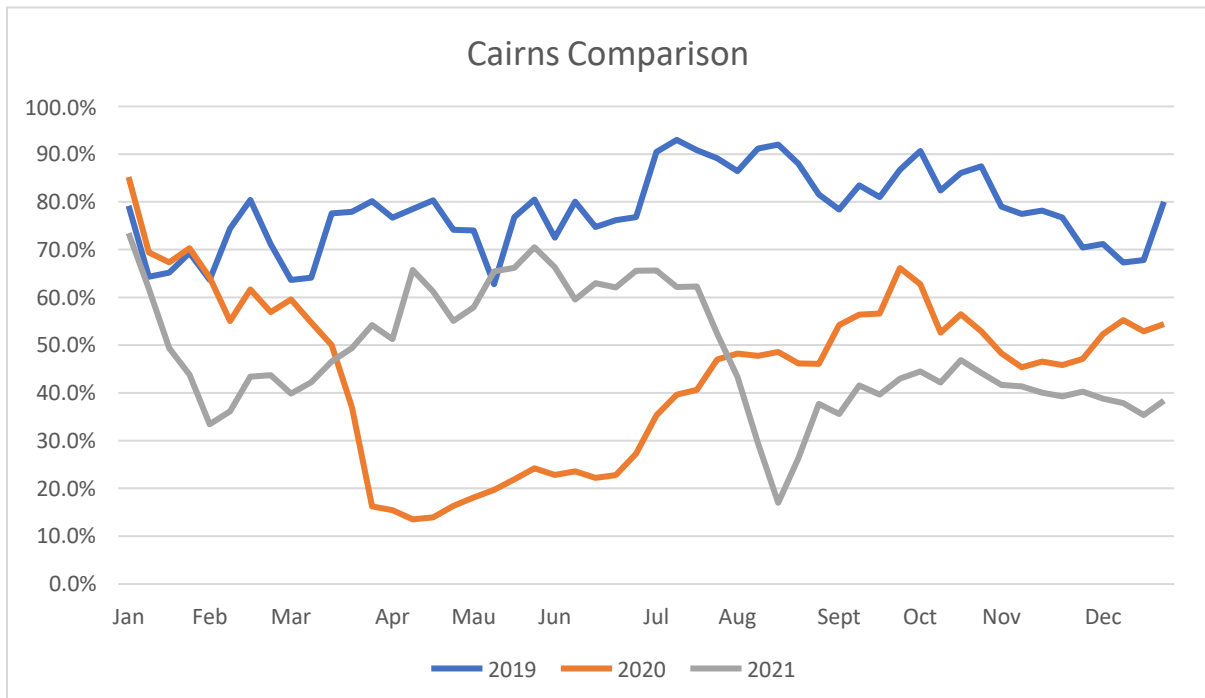
Brisbane



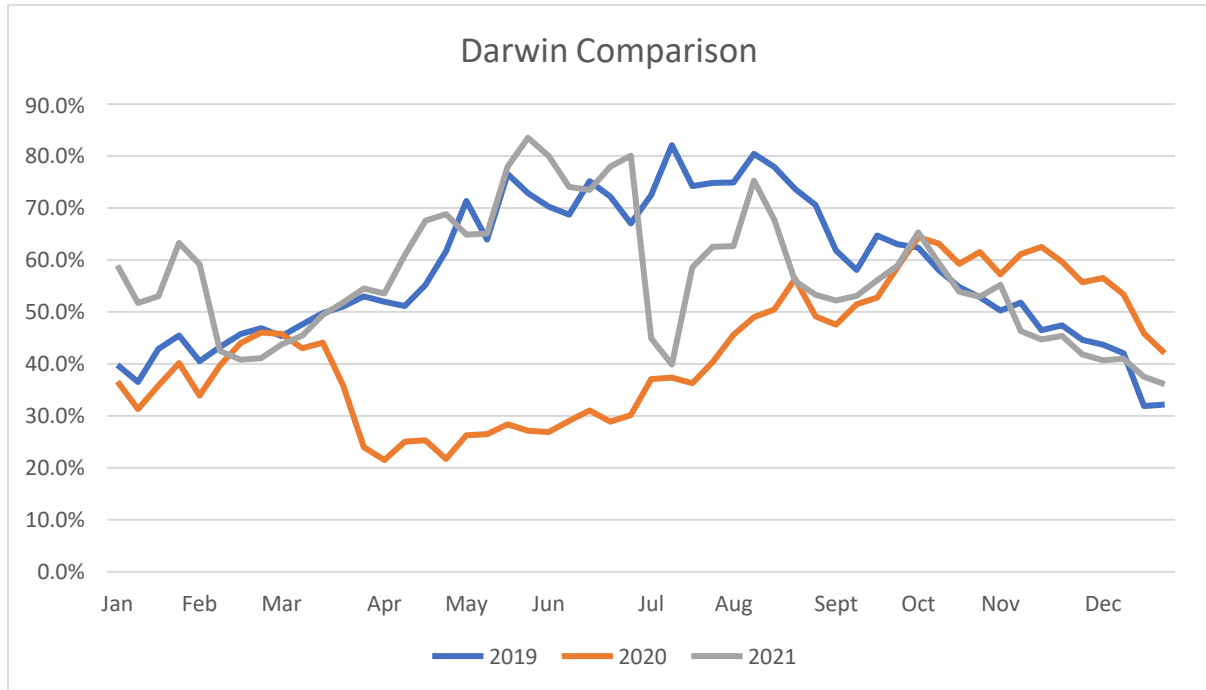
Gold Coast



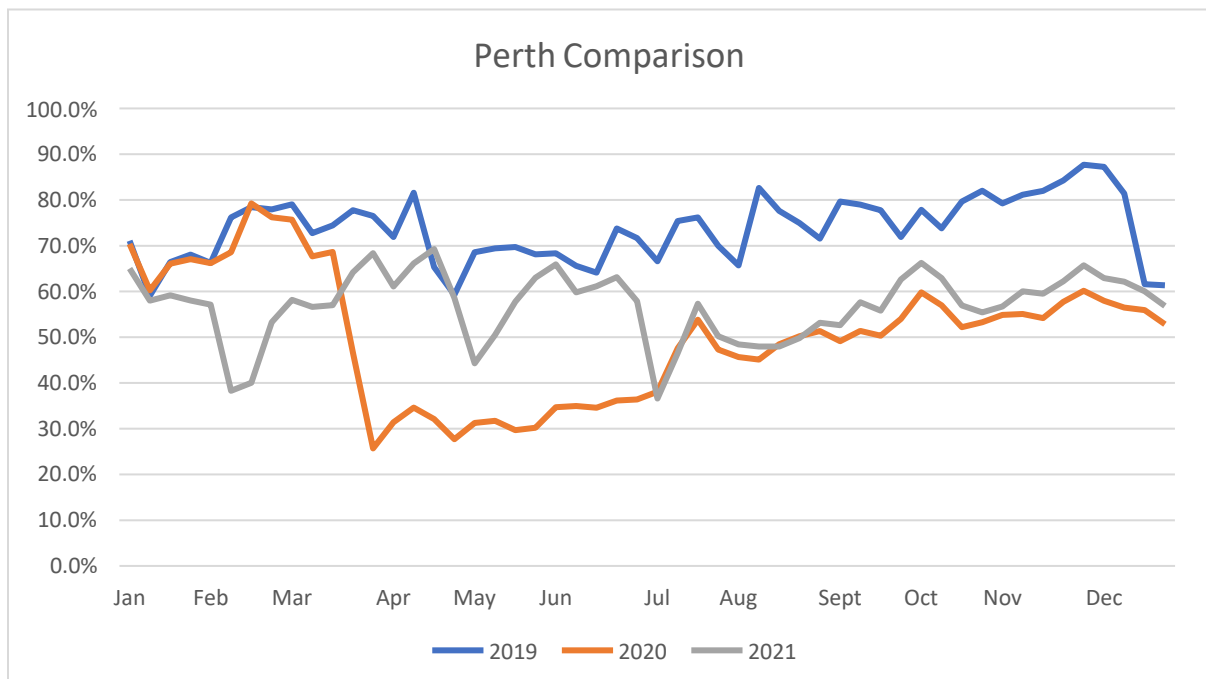
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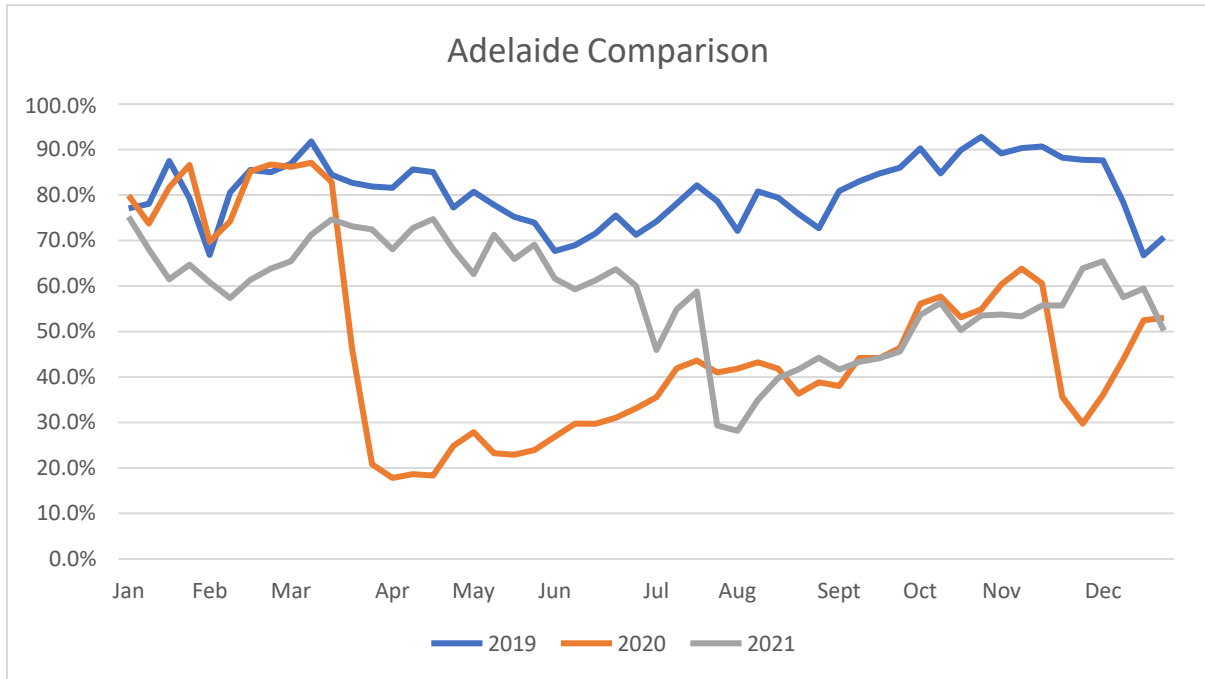
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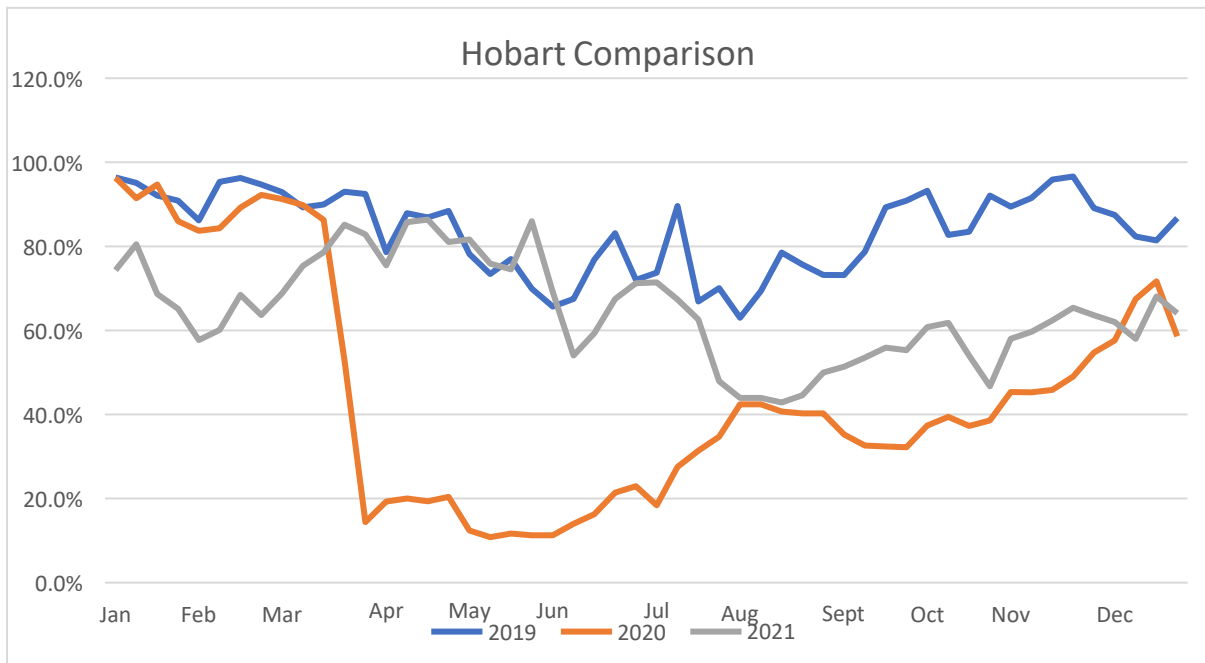
Perth



Adelaide



Hobart



Economic impacts of stimulus for the Accommodation and Food Services Sector

Report to the Australian
Hotels Association

3 December 2021

NOTICE

Ernst & Young was engaged on the instructions of the Australian Hotels Association ("Client", "AHA") to provide an assessment of the potential economic impacts of selected stimulus measures on the Accommodation and Food Services sector in Australia during the incidence of the COVID-19 downturn ("Project"), in accordance with the engagement agreement dated 1 December 2020.

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young's report dated 3 December 2021 ("Report"). The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since the date of the Report to update it.

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Any references made to the impact of COVID-19 (SARS-CoV-2) ("Coronavirus" or "Virus") on AHA in the Report are based on preliminary enquiries and are not to be interpreted as a complete commentary or as an accurate assessment of the full impact of the Virus. Neither our scope included, nor we have undertaken an analysis of potential impact of the Virus on the accommodation and food services (AFS) sector. Further, as the full impact of the Virus cannot be predicted with any degree of certainty (either for the AFS sector as a whole or individual stakeholders), the potential for unknown ramifications on consumers, supply chains, commercial counterparties (both direct and indirect to the operations of the relevant stakeholders within the AFS sector), future decisions that the relevant stakeholders may make as a result of the evolving Virus situation and potentially adverse geopolitical outcomes, means that the actual results may be further significantly impacted by the Coronavirus. The limitations of the Report should be noted and AHA should make their own determination as to whether the uncertainty of the impact of the Coronavirus would impact your decisions.

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1. Introduction

In June 2020, Ernst & Young (EY) was engaged by the Australian Hotels Association (AHA) to provide an assessment of the potential economic impacts of select stimulus measures on the Accommodation and Food Services (AFS) sector in Australia during the COVID-19 global pandemic. The results of EY's work, including the assumptions and qualifications made in preparing the report, are set out in EY's report dated 20 July 2020. That work commenced on 10 June 2020 and was completed on 20 July 2020.

The July 2020 report assessed the potential economic impacts of selected stimulus measures aimed at the AFS sector during the COVID-19 economic downturn. At that time, two potential options to support the sector through the crisis were proposed by AHA:

- Suspending Fringe Benefits Tax (FBT) on meal entertainment expenditure for three years.
- Extending the Job Keeper support program for a period of six-months, from October 2020 to March 2021.

In December 2021, EY was reengaged by AHA to provide a summary of our July 2020 findings with regard to fringe benefit tax suspension, including the framework, including data and assumptions.

In this paper, two scenarios are considered:

- **Scenario 1:** examines a three-year suspension of FBT expenses for meal entertainment prescribed for *all* businesses in the sector over the period 2020/21 to 2022/23.
- **Scenario 2:** examines a three-year suspension of FBT expenses for meal entertainment prescribed for small to medium enterprises (SMEs) in the sector over the period 2020/21 to 2022/23, where an SME is defined as any business with an annual turnover less than \$50 million.¹

The results of this analysis are presented below.

¹ Following the convention adopted in the Prosperity Advisers report "FBT on Meal Entertainment Hospitality Reignition Study for the AHA", 29/05/2020.

2. Analysis of the AFS sector and the proposed FBT suspension

Australia's AFS sector comprises a wide range of businesses, including accommodation services such as hotels, motels and serviced apartments, as well as restaurants, cafés, takeaways, pubs, bars and clubs. The sector is large and makes a significant contribution to the Australian economy. In the year ending June 2019, the AFS industry directly contributed an estimated \$43 billion of gross value added² and in the year ending June 2020 directly employed around 900,000 people and 800,000 in the food and beverage services industry.³

Fringe benefits and the AFS sector

A fringe benefit is defined⁴ by the Australian Taxation Office as the provision of a benefit to an employee in a form other than salary or wages. The tax base of Fringe Benefits Tax with respect to meal entertainment is defined⁵ as follows:

- providing entertainment by way of food or drink
- providing accommodation or travel connected with such entertainment, or
- paying or reimbursing expenses incurred in obtaining something covered by the above points.

Table 1 shows the taxable value on which FBT were calculated in aggregate for Australia, as well as for meal entertainment. In 2017/18 the taxable value of meal entertainment was \$397 million out of a total fringe benefits taxable amount of \$8,356 million representing 4.75% of the total.

Although meal entertainment forms a relatively small portion of the total fringe benefits taxable value (which also includes items such as company cars) the taxable amount for meals (which represents the dollar value of expenses subject to FBT) is not insignificant and is close to \$400 million.

	Total fringe benefits taxable amount	Meal entertainment - Gross taxable value
2009/10	\$7,625	\$339
2010/11	\$7,951	\$386
2011/12	\$8,050	\$398
2012/13	\$8,677	\$371
2013/14	\$9,117	\$359
2014/15	\$9,155	\$368
2015/16	\$9,146	\$375
2016/17	\$8,767	\$394
2017/18	\$8,356	\$397

² Source: Australian Bureau of Statistics, 5204.0 - Australian System of National Accounts 2018-19, 'Table 5: Gross Value Added (GVA) by Industry', <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5249.0Main+Features12018-19?OpenDocument>. Accessed 30/06/2020.

³ Source: Australian Industry and Skills Committee, 2020, 'Hospitality', <https://nationalindustryinsights.aisc.net.au/industries/tourism-travel-and-hospitality/hospitality>. Accessed 30/06/2020.

⁴ Australian Taxation Office, [https://www.ato.gov.au/General/fringe-benefits-tax-\(fbt\)/](https://www.ato.gov.au/General/fringe-benefits-tax-(fbt)/). Accessed 19/06/2020.

⁵ Source: Australian Taxation Office, available at: <https://www.ato.gov.au/non-profit/your-workers/in-detail/fbt-and-christmas-parties-for-tax-exempt-bodies/?page=3>. Accessed 03/02/2021.

⁶ Taxation statistics, 2009-2018, <https://data.gov.au/data/dataset/taxation-statistics-2016-17/resource/ddf6b851-1a59-4b4f-a2f1-802d26b26db2>. Accessed 19/06/2020.

Scenario design

In our July 2020 report, The Australian Hotels Association proposed that the Commonwealth Government consider a temporary suspension of FBT for meal, beverage and accommodation expenses to provide support for the sector. This option aimed to provide short to medium term stimulus as both the domestic economy and international tourism rebounds.

Two scenarios were considered:⁷

- Scenario 1 examines a three-year suspension of FBT expenses prescribed for all businesses in the sector.
- Scenario 2 examines an FBT exemption which applies to small and medium enterprises only.

Both options were proposed to operate for a three-year period from 2020/21 to 2022/23.

2.1 Estimated impacts of each scenario

The FBT exemption scenarios for meal and beverage entertainment and accommodation expenses drive a range of responses and economic impacts through the economy. The FBT exemption scenarios are based on the data presented above in relation to base expenditure on meal and beverage entertainment and accommodation expenses and a detailed methodology presented in Appendix A.

These impacts can be characterised across three key areas:

1. The magnitude of the FBT exemption;
2. The estimated increase in demand for meal and beverage entertainment and accommodation expenses resulting from the reduction in FBT; and
3. The economywide impacts of the increase in demand for AFS as measured by the impact on Gross Domestic Product (GDP) and employment.

The magnitude of the FBT exemption

As with any tax, the FBT drives a wedge between value and cost, reducing the quantity demanded and supplied in the relevant market. For economic stimulus purposes the FBT exemption is, by design, aimed at eliminating this wedge, reducing the price of meal entertainment to stimulate demand. On the other hand, the reduction in FBT revenue collected is a direct cost to government.

Table 2 shows the estimated magnitude of the FBT exemption under each of the scenarios considered (year-on-year). The magnitude of the FBT exemption in 2021/22 was \$260 million under Scenario 1 and \$169 million under Scenario 2 (this figure being lower because of a tightening of the FBT exemption to exclude large businesses).

⁷ Scenario 1 is corresponding to option 1a in the 20th July 2020 report and scenario 2 is corresponding to option 1b in the 2020 report.

Year	Scenario 1	Scenario 2
2020/21	\$286	\$193
2021/22	\$260	\$169
2022/23	\$263	\$171

Source: EY estimates

Impact on direct AFS industry output

Each scenario considers the impact of reducing FBT for meal entertainment to stimulate direct economic activity in the AFS sector. A reduction in FBT reduces the price of meal entertainment, thereby increasing demand for taxed activities. The reduction in price is a function of the estimated magnitude of the FBT exemption, the overall level of expenditure and the price elasticity of demand⁸.

That said, in the short term (year 1 of the exemption) it was assumed that businesses were likely to be less responsive to pure price signals than usual, and to have a stronger focus on the real and perceived safety risks of staff gatherings. To capture this effect in financial year 2020/21 we assume the stimulatory effects of the FBT exemption are halved.

The assumed increase in demand for AFS resulting from the FBT exemption is summarised in Table 3 below. The projected increase in demand for AFS was greatest under Scenario 1, reflecting the high level of FBT exemption. Overall, following the initial conservative assumption regarding uptake, the increase in AFS activity was estimated at \$525 million per annum under Scenario 1 and \$397 million per annum under Scenario 2 in 2021/22.

		Scenario 1	Scenario 2
Impact on sector output, \$m	2020/21	\$214	\$162
	2021/22	\$525	\$397
	2022/23	\$530	\$401

Source: EY estimates

In addition to the short-term assumptions regarding business responsiveness, the modelling assumes a short-term increase in labour supply during 2020/21, returning to pre-pandemic conditions for 2021/22 and 2022/23.

Estimated economy wide impacts

The direct boost to economic activity in the AFS sector also has flow-on impacts to the broader economy, through purchases made from suppliers and wages paid to employees. To capture these impacts at the economy wide level we have undertaken computable general equilibrium (CGE) modelling. This model, detailed in Appendix C, measures the net impact of changes on an economy. It was used to measure the net change in response to a given event, such as increased expenditure

⁸ A key assumption in the analysis is the assumed price elasticity of demand which has been derived from analysis presented in Okrent, Abigail M., and Julian M. Alston. The Demand for Disaggregated Food-Away-From-Home and Food-at-Home Products in the United States, ERR-139, U.S. Department of Agriculture, Economic Research Service, August 2012. Available at https://www.ers.usda.gov/webdocs/publications/45003/30438_err139.pdf?v=5049.9, last accessed 26/6/2020. The assumed price elasticity of demand is 1.34.

in the AFS sector. The key economic metrics are expressed in terms of changes to GDP and economywide employment, summarised in Table 4 below.⁹

Table 4: Scenario impacts to GDP and employment by financial year			
		Scenario 1	Scenario 2
Impact on GDP, \$m	2020/21	\$539	\$408
	2021/22	\$850	\$644
	2022/23	\$855	\$647
Impact on employment, FTE	2020/21	3,844	2,911
	2021/22	4,209	3,188
	2022/23	4,230	3,204

Source: EY estimates

Taking into account the direct impacts of the FBT exemption on the AFS sector, and the flow on impacts across the economy, there was a projected increase in both real GDP and employment in each year of each scenario. The projected impacts are directly linked to the magnitude of the FBT exemption and the assumed behavioural response. That is, the greater the exemption the higher the estimated economic benefits in terms of increased real GDP and employment (noting the conservative assumptions in the first year of the FBT exemption).

Benefits to outlays

To assess the relative merits of the FBT exemption it was useful to compare the level of government outlay (Table 2) with the projected increase in real GDP (Table 4). The ratio of the increase in real GDP to government outlay is presented in Table 5. These results show that:

- Each scenario shows economic returns which are greater than the overall cost to Government.
- Each of the scenarios presented have key timing impacts. The economic returns are lower in the first year of commencement (FY21), before increasing in the remaining two years (FY22 and FY23). This reflects a likely moderated response by businesses due to social distancing concerns and a general cautiousness on cost control.
- For Scenario 2, limiting the exemption to small and medium enterprises has a lower economic return for the costs incurred by government, reflecting the lower rate of company tax paid by SMEs.

Table 5 summarises the increase in GDP per dollar of total cost to government, noting that the total cost to government differs from the direct FBT cost outlined in Table 2, owing to changes in related tax collections as detailed in the Prosperity Advisers QLD¹⁰ report and summarised in Appendix A. The increase in GDP per dollar of cost to government was as high as \$3.26 for Scenario 1, and \$3.81 for Scenario 2 in 2021/22.

⁹ The scenarios identified involve direct costs to government, occurring through reduced FBT revenues. We assumed that the direct costs would be met through the raising of debt, consistent with announcements by the Government on how existing stimulus measures were being financed. Under these financing arrangements, there is no equivalent reduction in government expenditure elsewhere in the economy or increase in aggregate tax takings factored in the analysis.

¹⁰ Small and Medium Enterprise (SME) is defined as businesses with under \$50 million annual turnover as per the Prosperity Advisers report “FBT on Meal Entertainment Hospitality Reignition Study for the AHA”.

Table 5: GDP per dollar of cost to government			
		Scenario 1	Scenario 2
GDP per dollar of cost to government	2020/21	\$1.89	\$2.11
	2021/22	\$3.26	\$3.81
	2022/23	\$3.25	\$3.79

Source: EY estimates

A summary of all the above impacts from Table 3 to Table 5 is provided in Table 6 below:

Table 6: Scenario summary potential results by financial year			
		Support option Temporary FBT exemption	
		Scenario 1	Scenario 2
Impact on sector output, \$m	2020/21	\$214	\$162
	2021/22	\$525	\$397
	2022/23	\$530	\$401
Impact on GDP, \$m	2020/21	\$539	\$408
	2021/22	\$850	\$644
	2022/23	\$855	\$647
Impact on employment, FTE	2020/21	3,844	2,911
	2021/22	4,209	3,188
	2022/23	4,230	3,204
GDP per dollar of cost to government	2020/21	\$1.89	\$2.11
	2021/22	\$3.26	\$3.81
	2022/23	\$3.25	\$3.79

Source: EY estimates

Detailed scenario design methodology can be found in Appendix A, with additional documentation on the EYGEM model provided in Appendix C.

Appendix A Approach to option design

The first step in estimating the economy wide impacts is determining the direct impact of each of the measures. A range of data sources and models were drawn upon to develop first round estimates of the potential increase in output for the AFS sector as a result of FBT exemptions. While each scenario draws on similar input data, the specifics of each scenario call for tailored estimation approaches. Each of the estimation methodologies are outlined in the subsections below.

Once the direct impacts of each scenario were estimated, the second step was to develop economy wide estimates of the impacts using EY's in-house computable general equilibrium (CGE) model, the EYGEM model. EYGEM is a large scale, dynamic, multi-region, multi-commodity CGE model of the Australian and world economy. CGE models are used extensively by (for example) the Australian Government to assess the economy-wide impacts of major policy changes and economic developments. A detailed description of the EYGEM model is presented in Appendix C.

The direct outputs of each of the estimation exercises described below were used to calibrate a series of economic 'shocks' that were applied to the EYGEM model. The results of these shocks are described in Section 1.4.

Scenario 1 and 2

Each of these stimulus scenarios call for a three-year suspension of fringe benefits tax on meal and beverage entertainment and accommodation expenses from financial year 2020/21 to financial year 2022/23. Differentiating the scenarios is the scope of the suspension, with Scenario 1 calling for the suspension to be applied to all businesses regardless of size, while Scenario 2 calls for the suspension to be restricted to SME only.

Estimation of the direct industry response, the cost to Government, and the economy wide impact follows a three step process where we first estimate the existing and forward level of FBT collection, second we estimate the direct behavioural response to the effective tax reduction, and third we apply the increased industry output to the EYGEM model. The detailed approach is as follows:

1. The 2016/17 taxation statistics which were the most recent available as at 20 July 2020 from the Australian Taxation Office¹¹ provides the fringe benefits tax paid on meal entertainment, at \$387,185,184 for the financial year 2017/18.
2. In July 2020 the most recent national accounts from the Australian Bureau of Statistics¹² provide data on total fringe benefits tax collections on a quarterly basis to March 2020. EY calculations based on this data indicate an increase in total FBT collections of 2.54% from 2017/18 to 2019/20. This increase in FBT takings is used to estimate meal entertainment and accommodation FBT in 2019/20 of \$397,058,203.
3. Weekly revenue data provided by AHA for AusVenueCo¹³ showed the level of revenue decline experienced from 2018/19. This data is used to calibrate a projection of meal entertainment and accommodation FBT takings to 2022/23, suggesting reductions in these FBT takings from 2018/19 of 23% in 2019/20, 26% in 2020/21, 11% in 2021/22, and 0% in 2022/23. This FBT profile was used as the base for calculations in Scenario 1.

¹¹ Source - Taxation statistics 2016-17 Fringe benefits tax: Selected items by industry and taxable status, 2017-18 FBT return year. Available at https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2016-17/?page=18#Fringe_benefits_tax, last accessed 26/6/2020. Note that while this publication is primarily for financial year 2016/17, selected data including on Fringe Benefits Tax is provided for financial year 2017/18.

¹² Source - 5206.0 Australian National Accounts: National Income, Expenditure and Product, Table 22. Available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5206.0Mar%202020?OpenDocument>, last accessed 26/6/2020.

¹³ AusVenueCo operate 170 pubs, bars and taverns across Australia in all states and territories with the exception of Tasmania.

4. The report ‘FBT on Meal Entertainment Hospitality Reignition Study for the AHA’ dated 29 May 2020 by Prosperity Advisers QLD indicates that 75.74% of meal entertainment and accommodation FBT is collected from SMEs. This proportion is used to reduce the base of FBT takings calculated previously and provides the FBT base for Scenario 2.
5. Own price elasticities for the categories “Food Away from Home and Alcohol” and “Full-Service Restaurant” were drawn from Okrent and Alston¹⁴, at 0.71 and 1.96 respectively. Noting the wide range in these two elasticities and that the nature of the FBT expenses under investigation is likely to include a combination of these categories we choose a midpoint of 1.335.
6. The own price elasticity is applied to reduction in the effective tax collection calculated above for Scenarios 1 and 2. We made the assumption that over the short-term business is likely to be less responsive to pure price signals than usual, and to have a stronger focus on the real and perceived safety risks of staff gatherings, and so for financial year 2020/21 we halve the own price elasticities estimated above.
7. The resulting profile of industry output increase is then used as an output shock for the accommodation and food services sector in the EYGEM model.
8. The Prosperity Advisers QLD report (refer 4. above) provides estimates of the total direct (that is, before behavioural changes) loss of revenue to government as a result of suspension of FBT, with a total loss of \$1.12 for every \$1 of FBT suspension in Scenario 1, and a total loss of \$1.02 for every \$1 of FBT suspension in Scenario 2, reflecting differences in the rate of corporate tax applied for each entity. Additionally, the report indicates that each additional dollar of expenditure spent on meal entertainment results in an increase in tax revenue of \$0.34. These ratios were applied to the reduced FBT base and the estimated increase in AFS output respectively to calculate the total cost to government.

On the basis of the process above, we estimate a direct potential increase in output in the AFS sector as described in Table 6 below.

Table 6: Potential Increase in AFS activity, \$m, Scenarios 1 and 2		
	Scenario 1	Scenario 2
2020/21	\$214	\$162
2021/22	\$525	\$397
2022/23	\$530	\$401

¹⁴ Okrent, Abigail M., and Julian M. Alston. The Demand for Disaggregated Food-Away-From-Home and Food-at-Home Products in the United States, ERR-139, U.S. Department of Agriculture, Economic Research Service, August 2012. Available at https://www.ers.usda.gov/webdocs/publications/45003/30438_err139.pdf?v=5049.9, last accessed 26/6/2020

Appendix B Meal entertainment gross taxable value by industry

Table 9 below shows the gross taxable value of fringe benefits tax - meal entertainment by 1-digit ANZSIC industry¹⁵. This is a representation of the value of fringe benefits provided to employees in each industry, in the form of meal entertainment.

Table 9: Meal entertainment gross taxable value by industry, \$

Industry	Meal entertainment - Gross taxable value (\$) 2016 - 2017	Meal entertainment - Gross taxable value (\$) 2017 - 2018	Meal entertainment - Gross taxable value (\$) 2018 - 2019
Australian Government Departments	5,314,375	5,566,787	5,011,851
All Industries	10,312,648	1,975,571	1,968,536
A. Agriculture, Forestry and Fishing	2,421,318	2,385,785	2,504,930
B. Mining	6,581,805	9,326,039	9,790,997
C. Manufacturing	31,755,096	30,406,825	31,436,539
D. Electricity, Gas, Water and Waste Services	5,881,107	6,559,909	6,470,309
E. Construction	25,476,347	27,201,525	24,264,767
F. Wholesale Trade	44,430,878	44,725,082	42,321,703
G. Retail Trade	11,450,099	10,897,625	10,966,954
H. Accommodation and Food Services	3,302,380	3,041,939	3,215,826
I. Transport, Postal and Warehousing	9,546,945	9,437,075	9,763,483
J. Information Media and Telecommunications	16,729,807	15,350,407	14,510,573
K. Financial and Insurance Services	44,156,187	54,921,469	50,574,383
L. Rental, Hiring and Real Estate Services	15,780,632	15,498,154	24,403,367
M. Professional, Scientific and Technical Services	101,467,326	111,154,272	114,916,641
N. Administrative and Support Services	17,594,412	18,141,158	21,645,827
O. Public Administration and Safety	5,504,813	5,496,604	4,307,891
P. Education and Training	12,013,397	10,842,396	10,552,701
Q. Health Care and Social Assistance	14,229,104	14,211,561	17,310,391
R. Arts and Recreation Services	3,759,024	3,976,345	3,763,002
S. Other Services	9,099,341	8,594,695	9,207,573
U. Other	690,791	1,001,598	219,710

¹⁵ Source: Taxation statistics, Fringe Benefits Tax, 2016-2017, Snapshot Table 2 - <https://data.gov.au/data/dataset/taxation-statistics-2016-17/resource/3c11cbfa-5a11-4d1e-8979-8fce1ff2c4d3>. Accessed 19/06/2020.

Source: Taxation statistics, Fringe Benefits Tax, 2017-2018, Snapshot Table 2 - <https://data.gov.au/data/dataset/taxation-statistics-2017-18/resource/df73a406-6b5d-416c-87fc-c97438a3fd7d>

Source: Taxation statistics, Fringe Benefits Tax, 2018-2019, Snapshot Table 2 - <https://data.gov.au/data/dataset/taxation-statistics-2018-19/resource/b06966ad-9827-4139-b55a-6e9ded9a1b1f> Accessed 26/11/2021

Appendix C EYGEM Model

Economic impact analysis measures the net impact of changes on an economy. It is used to measure the net change in response to a given event (e.g. such as the loss of an activity, or increased expenditure in a particular sector). The key economic metrics are expressed in terms of changes to gross domestic product, employment and other macro-economic indicators.

The EYGEM model is a large scale, dynamic, multi-region, multi-commodity CGE model of the world economy. The EYGEM model enjoys significant flexibility both at the regional and sectoral level, including the capability to individually identify subregions of Australia, including (but not limited to) at the SA4 or the LGA level as separate economic regions. This capability to identify subnational regions is also readily extended to other international regions.

EYGEM draws on the global CGE modelling framework developed by the Global Trade Analysis Project (GTAP) based at Purdue University in the United States. Their model is described in Hertel (1997), with its antecedent being the Industry Commission's Salter model (Jomini et al 1991). The GTAP model was greatly enhanced by the Australian Bureau of Agriculture and Resource Economics (ABARE) to incorporate dynamic capabilities. The MEGABARE model (ABARE 1996) and its successor, the Global Trade and Environment Model (Pant 2002), were the fruits of ABARE's efforts.

Our model is implemented in modern data science frameworks, including Python and Pandas, and has a user-friendly Excel interface. Our frameworks are specifically designed to improve auditing a paper trail in modelling exercises, reduce the risk of modelling error, and allow for (for example) systematic sensitivity analysis.

Overview of the modelling framework

EYGEM is based on a substantial body of accepted microeconomic theory. Key assumptions underpinning the model are:

- ▶ The model contains a 'regional consumer' that receives all income from factor payments (labour, capital, land and natural resources), taxes and net foreign income from borrowing (lending).
- ▶ Income is allocated across household consumption, government consumption and savings so as to maximise a Cobb-Douglas utility function.
- ▶ Household consumption for composite goods is determined by minimising expenditure via a CDE (Constant Differences of Elasticities) expenditure function. For most regions, households can source consumption goods only from domestic and imported sources. In the Australian regions, households can also source goods from interstate. In all cases, the choice of commodities by source is determined by a CRESH (Constant Ratios of Elasticities Substitution, Homothetic) utility function.
- ▶ Government consumption for composite goods, and goods from different sources (domestic, imported and interstate), is determined by maximising utility via a Cobb-Douglas utility function.
- ▶ All savings generated in each region are used to purchase bonds whose price movements reflect movements in the price of creating capital.
- ▶ Producers supply goods by combining aggregate intermediate inputs and primary factors in fixed proportions (the Leontief assumption). Composite intermediate inputs are also combined in fixed proportions, whereas individual primary factors are combined using a CES production function.

- ▶ Producers are cost minimisers, and in doing so choose between domestic, imported and interstate intermediate inputs via a CRESH production function.
- ▶ The supply of labour is positively influenced by movements in the real wage rate governed by an elasticity of supply. This is most often assumed to be 0.15 for central case scenarios, and 0.3 for high side scenarios, depending on the employment market conditions for the region under consideration.
- ▶ Investment takes place in a global market and allows for different regions to have different rates of return that reflect different risk profiles and policy impediments to investment. A global investor ranks countries as investment destinations based on two factors: global investment and rates of return in a given region compared with global rates of return.
- ▶ Once aggregate investment is determined in each region, the regional investor constructs capital goods by combining composite investment goods in fixed proportions, and minimises costs by choosing between domestic, imported and interstate sources for these goods via a CRESH production function.
- ▶ Prices are determined via market-clearing conditions that require sectoral output (supply) to equal the amount sold (demand) to final users (households and government), intermediate users (firms and investors), foreigners (international exports), and other Australian regions (interstate exports).
- ▶ For internationally-traded goods (imports and exports), the Armington assumption is applied whereby the same goods produced in different countries are treated as imperfect substitutes. But in relative terms imported goods from different regions are treated as closer substitutes than domestically-produced goods and imported composites. Goods traded interstate within the Australian regions are assumed to be closer substitutes again.
- ▶ The model accounts for greenhouse gas emissions from fossil fuel combustion. Taxes can be applied to emissions, which are converted to good-specific sales taxes that impact on demand. Emission quotas can be set by region and these can be traded, at a value equal to the carbon tax avoided, where a region's emissions fall below or exceed their quota.

Dynamics of EYGEM

EYGEM is a recursive dynamic model that solves year-on-year over a specified timeframe. This has two main advantages. First, dynamics allows a richer specification of the model in that issues such as debt accumulation (which facilitates the ability to model international capital flows) and labour market dynamics are able to be modelled in a more sophisticated manner. Second, scenario analysis using a model such as EYGEM can be greatly enhanced by the ability to alter the baseline, or reference case, to account for key developments or uncertainties.

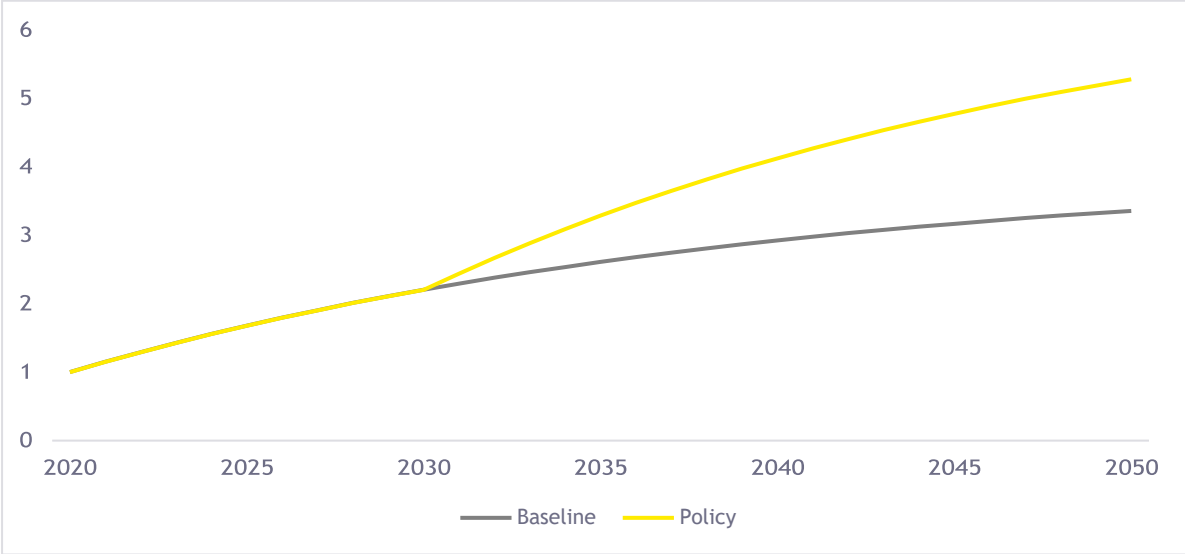
The model is then used to project the relationship between variables under different scenarios, or states, over a pre-defined period. This is illustrated in [Figure 1](#), where a reference case or 'baseline' forms the basis of the analysis undertaken using EYGEM. The model is solved year-by-year from time 0 which reflects the base year of the model (2020) to a predetermined end year (in this case 2050).

The 'Variable' represented in the figure could be one of the hundreds or thousands represented in the model ranging from macroeconomic indicators such as real GDP to sectoral variables such as the exports of iron and steel from Australia. In the figure, the percentage changed in the variables have been converted to an index (= 1.0 in 2020) and is projected to increase by 2050.

Set against this baseline is, in [Figure 1](#), a 'Policy' scenario. This scenario represents the impacts of a policy change or different assumptions about economic development that results in a new projection of the path of the variable over the simulation time period. The impacts of the policy/assumption change are reflected in the differences in the variable at time T. It is important to

note that the differences between the baseline and policy scenario are tracked over the entire timeframe of the simulation.

Figure 1: Dynamic simulation using EYGEM



Detailed interdependencies

The model is underpinned by a detailed, global database. The model’s database is ‘benchmarked’ or ‘calibrated’ so that initial equilibrium solution exists that replicates actual sectoral production, consumption, trade and factor usage. It contains 141 regions and 64 sectors for a base year of 2007, and is the benchmark dataset for applied, global general equilibrium modelling. This database produced by the Global Trade Analysis Project (GTAP) at Purdue University is the most detailed and comprehensive database of its type in the world. Used by some 700 researchers globally, the database is a truly international, collaborative research effort that is fully documented and transparent.

The EYGEM model is primarily based on input-output or social accounting matrices, as a means of describing how economies are linked through production, consumption, trade and investment flows. For example, the model considers:

- ▶ direct linkages between industries and countries through purchases and sales of each other’s goods and services; and
- ▶ indirect linkages through mechanisms such as the collective competition for available resources, such as labour, that operates in an economy-wide or global context.

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